

***Governing Iowa's public
universities and special schools***

University of Iowa
Iowa State University
University of Northern Iowa
Iowa School for the Deaf
Iowa Braille and Sight Saving School
Lakeside Laboratory Regents Resource Center
Northwest Iowa Regents Resource Center
Quad-Cities Graduate Center
Southwest Iowa Regents Resource Center



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Robert Donley, Executive Director

**BOARD OF REGENTS, STATE OF IOWA
NOTICE OF MEETING OF PERFORMANCE-BASED REVENUE MODEL TASK FORCE
OCTOBER 18, 2013**

October 17, 2013

Contact: Sheila Koppin, Board of Regents Communications Director, 515-281-3332

The Board of Regents Performance-Based Revenue Model Task Force will hold its initial meeting on Friday, October 18, 2013, from 11:00 a.m. to 2:30 p.m., at the Board of Regents office, 11260 Aurora Avenue, Urbandale, Iowa. A copy of the meeting agenda is attached.

The Task Force, chaired by former Regent David Miles, consists of the following members:

- Katie Mulholland, Board of Regents President Pro Tem;
- Len Hadley, retired CEO of the Maytag Corporation;
- Cara Heiden, retired co-president of Wells Fargo Home Mortgage; and
- Mark Oman, retired Senior Executive Vice President of Wells Fargo and Company and member of the Board of Trustees of the UNI Foundation.

The Task Force was announced at the April 2013 Board of Regents meeting by former Regent President Craig Lang. In presenting the charge of the Task Force, he directed that the work include examination of the existing model for general university appropriations to ensure that the needs of the universities are met, to recognize their distinct missions, and to identify the right set of metrics to review performance.

At the October 18 meeting, the Task Force will hear a presentation by Mr. Art Hauptman, a national and international consultant on governing and financing higher education (a copy of his bio is attached). Mr. Hauptman will discuss state higher education funding models and trends and present suggestions for financing reforms.

The Board of Regents is a group of nine citizen volunteers who govern the state's three public universities and two special K-12 schools – the Iowa School for the Deaf and the Iowa Braille and Sight Saving School.

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BOARD OF REGENTS
PERFORMANCE-BASED REVENUE MODEL TASK FORCE

AGENDA

October 18, 2013 11:00 a.m. – 2:30 p.m.
BOR Office, 11260 Aurora Ave, Urbandale, IA 50322

- | | | |
|------|--|--------------------------|
| I. | Introductions & Welcome | David Miles, Chair |
| II. | Organizational Matters | David Miles |
| | a. Charge to the Task Force | |
| | b. Projected Timeline | |
| | c. Discussion | |
| III. | The History of State Funding for Iowa's Public Universities | Patrice Sayre, BOR CBO |
| IV. | National Trends and Issues in Funding Public Higher Education | Art Hauptman, Consultant |
| | a. National Trends in State Funding & Governance | |
| | b. What are the Different Ways in which State Funds are Allocated to Universities? | |
| | c. Issues in Developing Funding Formulas | |
| | d. Ways in Which Performance Can Be Built into the Funding System | |
| | e. Where do Tuition and Fees Fit into this Picture? | |
| | f. What is the Appropriate Role of Student Financial Aid in State Financing? | |
| | g. Some Principles for Reform | |
| | h. The Importance of Linking Funding, Tuition & Fees, and Financial Aid Policies | |
| | i. Recommendations for how States Can Reform How Higher Education is Financed | |
| V. | Discussion | Task Force Members |
| VI. | Wrap Up & Next Steps | David Miles |

Art Hauptman, Public Policy Consultant

Arthur M. Hauptman has been an independent public policy consultant since 1981 specializing in higher education finance issues. He has consulted and written extensively on student financial aid, fee-setting policies, and the public funding of higher education in countries around the world. A consistent theme of his work is that public policies in higher education are more effective when these three key elements of financing are linked systematically.

In the U.S., he has consulted with many federal and state agencies as well as higher education associations and institutions. He has helped develop the rationale for a number of federal programs including direct loans, income contingent loans, and tuition tax credits. For states, he has argued for developing counter-cyclical policies, tying public sector tuition levels to general income growth, and creating funding formulas that pay institutions based on their performance and efficiency. Internationally, he has consulted with governments or funding bodies in more than two dozen industrialized and developing countries to develop financing strategies for tertiary education.

He earned a BA in Economics from Swarthmore College and a MBA from Stanford University.

TRENDS AND ISSUES IN FUNDING HIGHER EDUCATION

ARTHUR M. HAUPTMAN

PERFORMANCE-BASED REVENUE MODEL
TASK FORCE

DES MOINES, IOWA

18 OCTOBER 2013

ITEMS DISCUSSED IN THIS PRESENTATION

Traditional Sources of Funds for Instruction & Research

Ten Instructional Funding Dualities

National Trends in State Funding, Fees, and Enrollments

Trends in State Funding of Higher Education, 1970-2010

Mechanisms for Allocating Public Funds to Institutions

Elements of Funding Formulas for Recurrent Expenses

Traditional and Performance-Based HE Funding Mechanisms

The Role of Tuition Fees in Financing HE

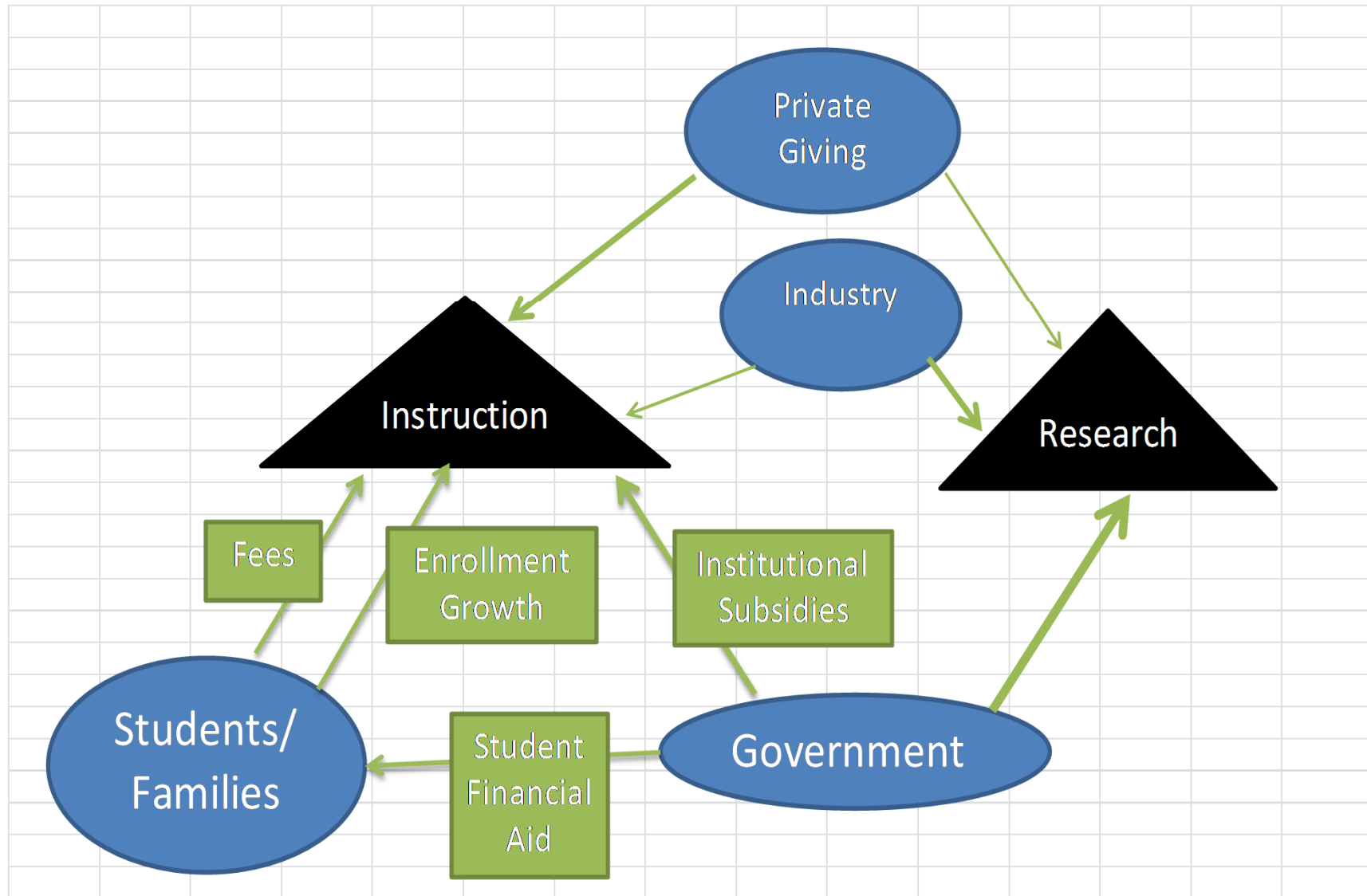
Possible Objectives of State Student Financial Aid Programs

The Importance of Linking Funding, Fees, and Financial Aid

Principles to Guide the Public Financing of Public HE

Six Suggestions for Reforming How States Finance HE

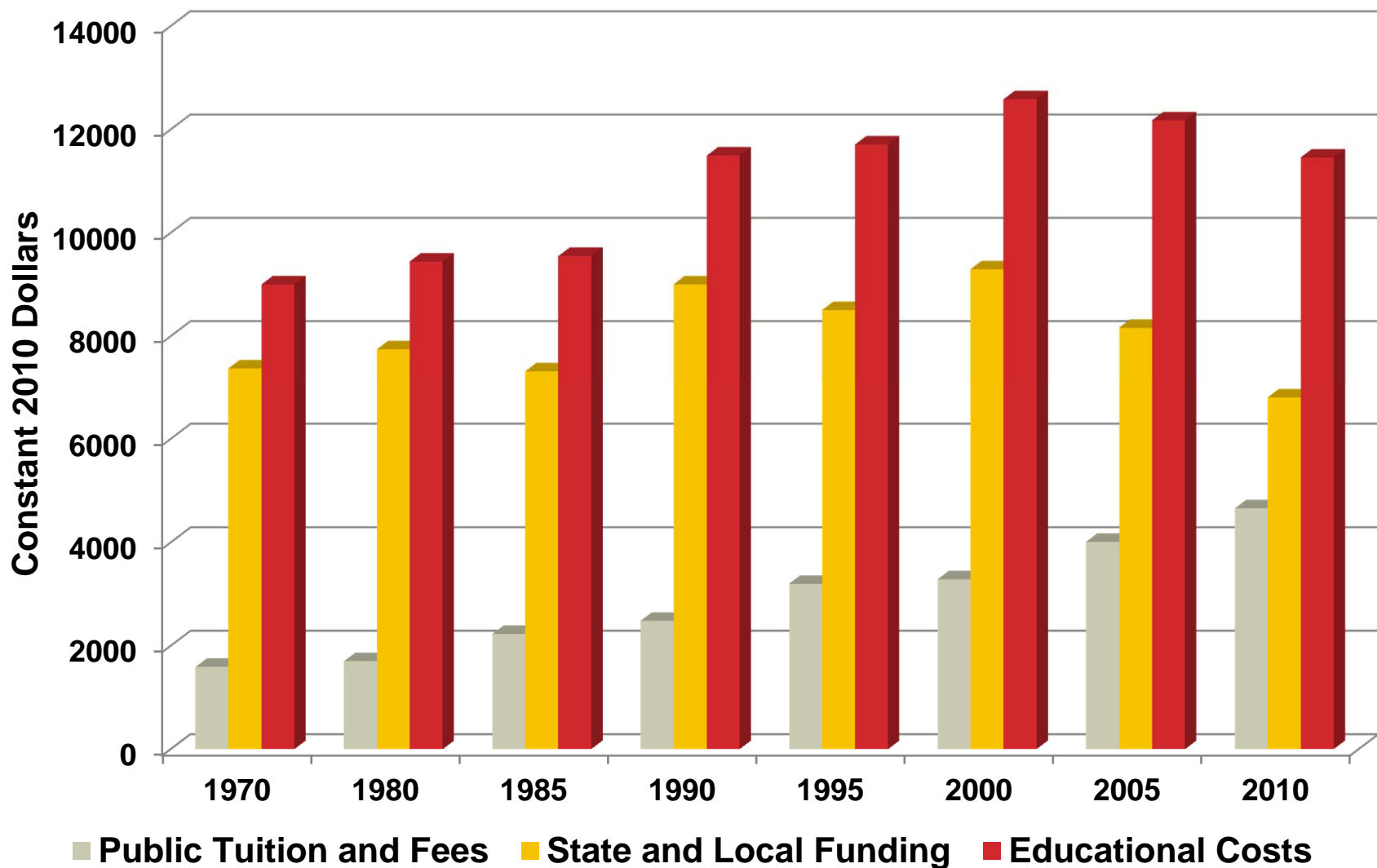
TRADITIONAL SOURCES OF FUNDS FOR INSTRUCTION AND RESEARCH



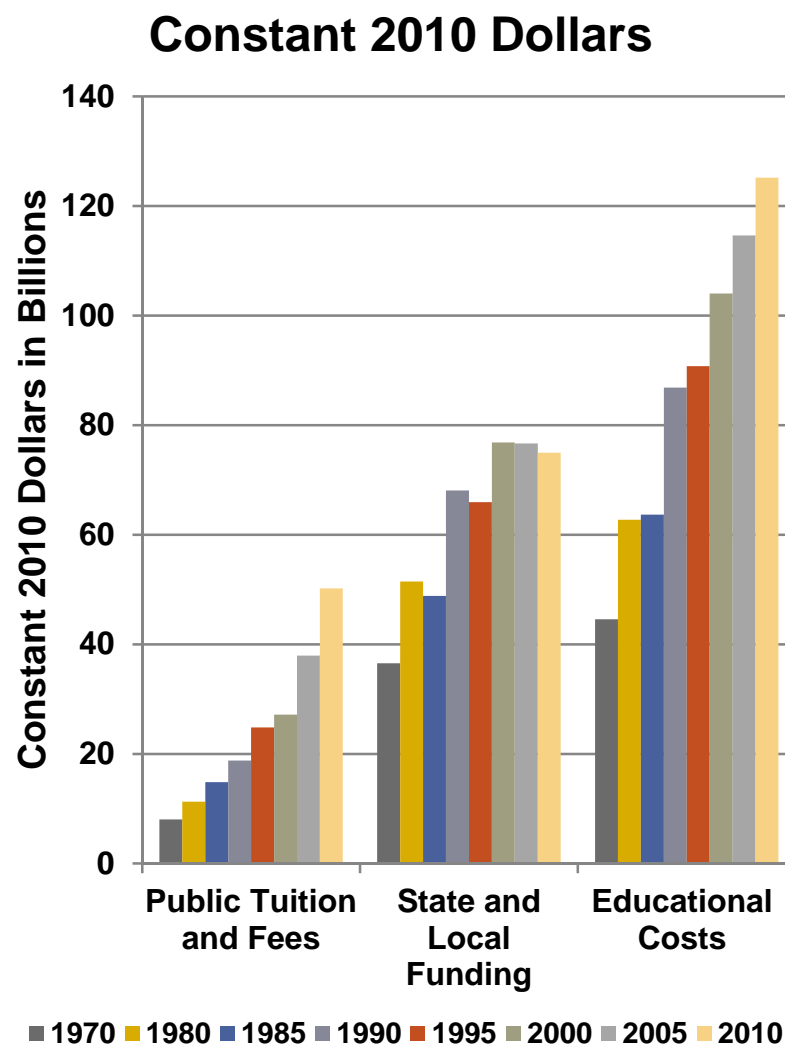
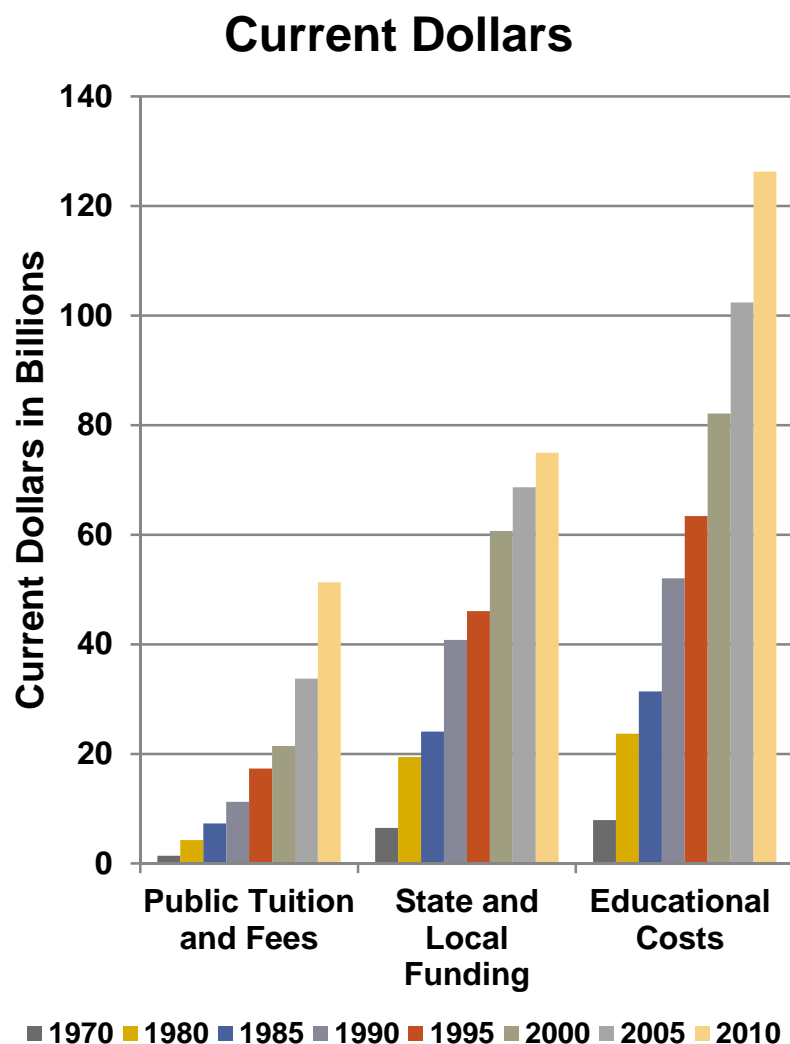
TEN INSTRUCTIONAL FUNDING DUALITIES

Mix of Funding	Government/(Student/Family)
Allocation of Public Funds	Formula/(Competitive/Categorical Grants)
Type of Government Support	Institutional Operations/Student Financial Aid
Type of Student Support	(Grants-Bursaries)/(Loans-Work-Study)
Student Support Delivery	Institution-Based/Vouchers
Role of Government Funding	Fund Base/Fund Growth
Types of Policy	Regulation/Funding Incentives & Penalties
How Growth is Funded	Government Funding/Student Fees
Funding Strategy	Government-Set/Market-Based
Basis of Funding	Inputs/Outputs

Tuition and Fees, State and Local Funding, and Educational Costs per FTE at Public Institutions, in Constant 2010 Dollars, 1970-2010

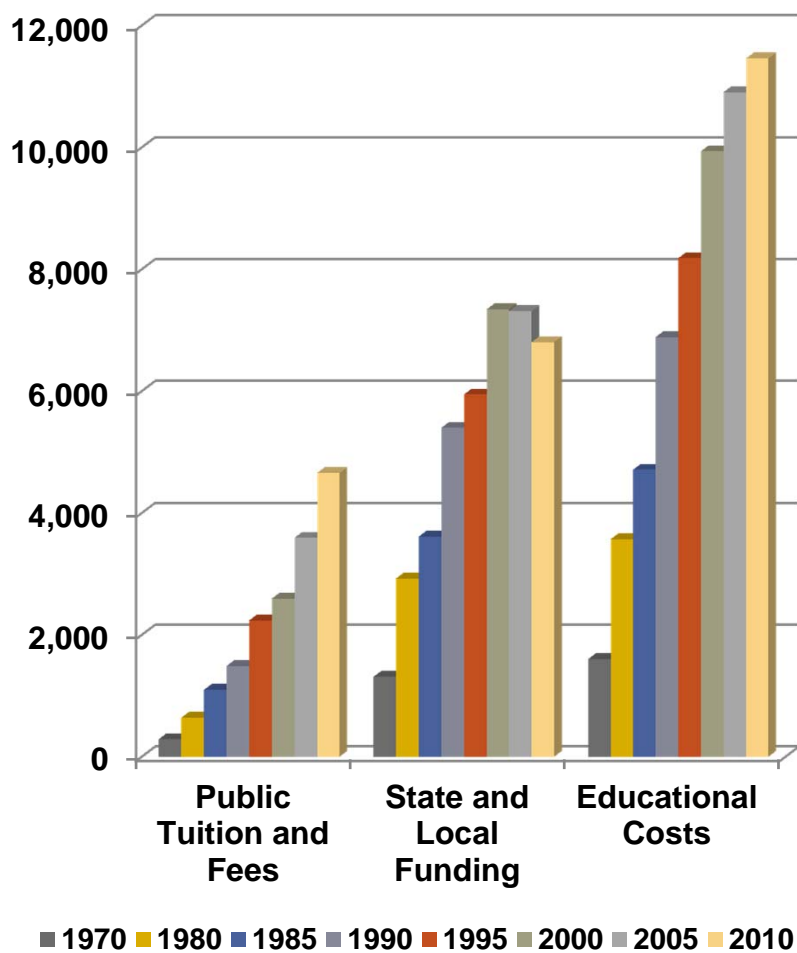


PUBLIC TUITION AND FEES, STATE AND LOCAL FUNDING, AND EDUCATIONAL COSTS, CURRENT AND CONSTANT 2010 DOLLARS, 1970-2010

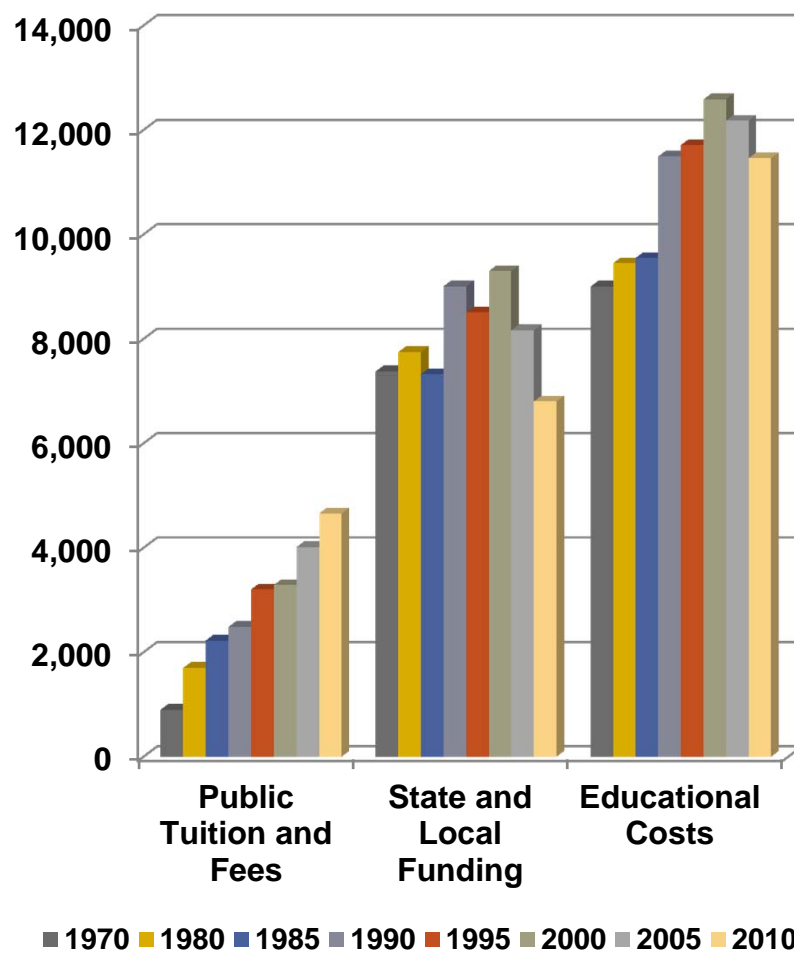


PUBLIC TUITION AND FEES, STATE AND LOCAL FUNDING, AND EDUCATIONAL COSTS PER FTE, CURRENT AND CONSTANT 2010 DOLLARS, 1970-2010

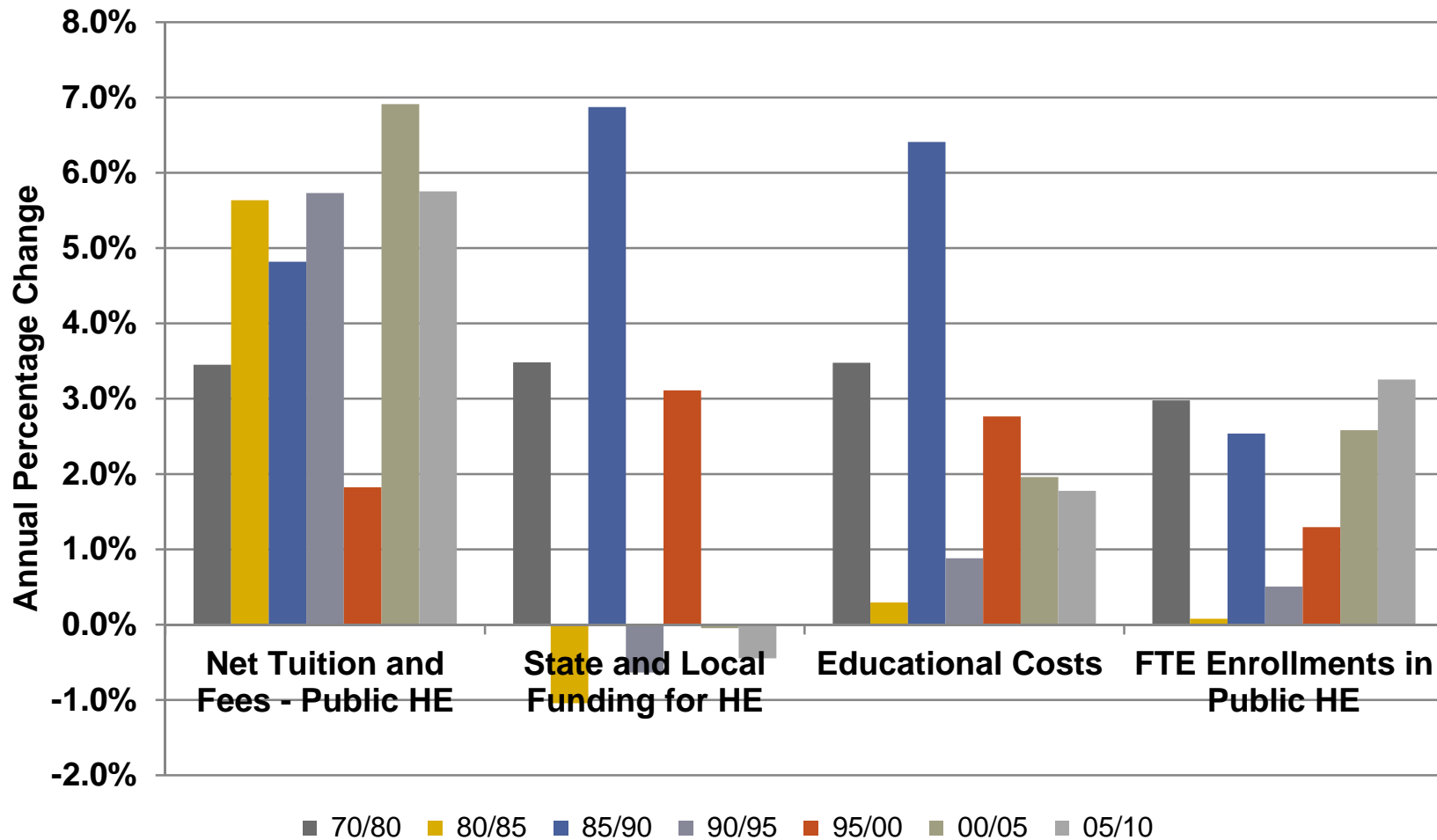
Current Dollars



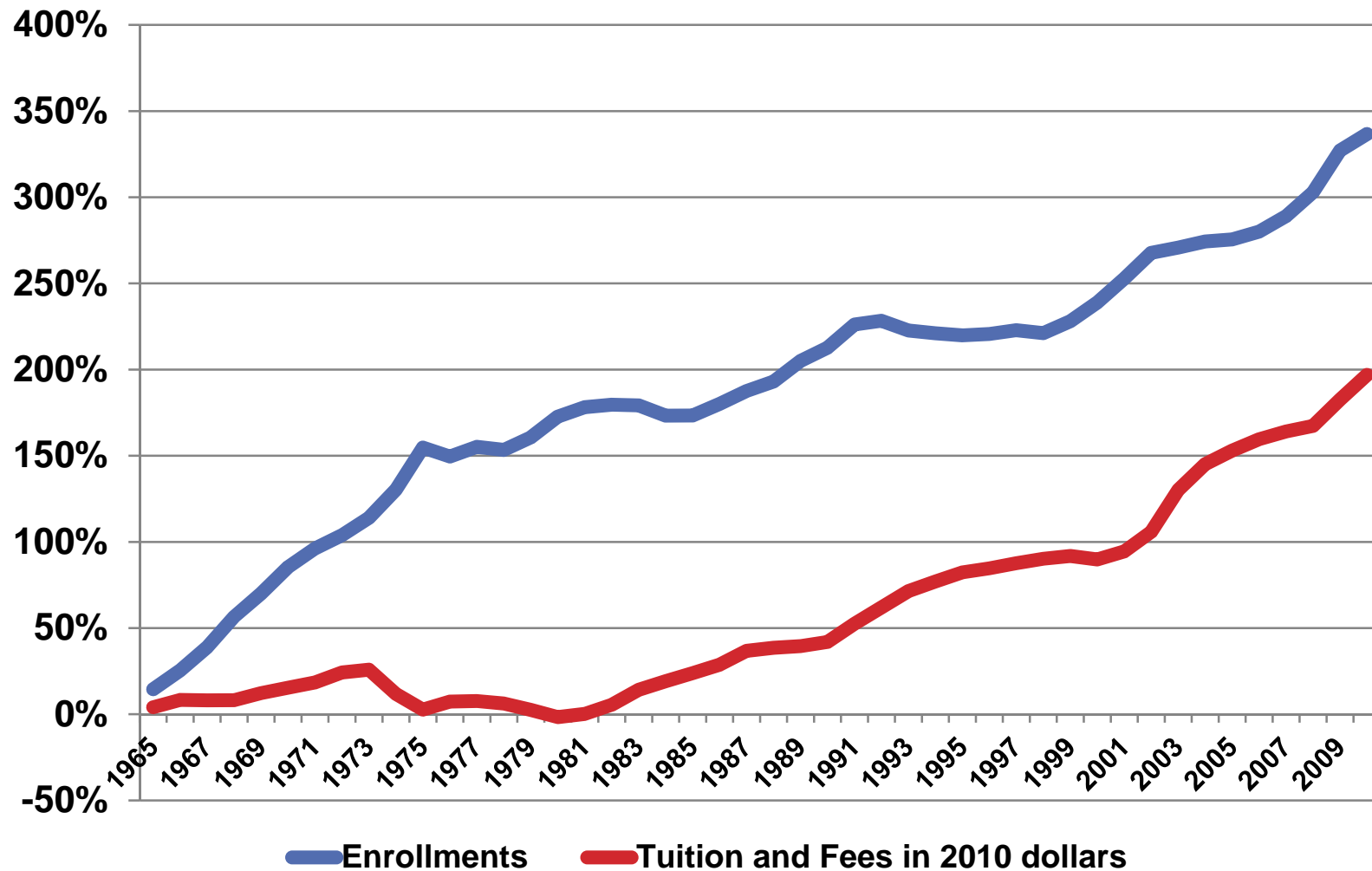
Constant 2010 Dollars



Annual Percentage Change in Key Financial Indicators in Constant 2010 Dollars and FTE Enrollments for Public Higher Education, 1970-2010



Cumulative Percentage Change in Public Sector Enrollments and Tuition and Fees per FTE in 2010 Dollars, 1965 to 2010



MECHANISMS FOR ALLOCATING PUBLIC FUNDS TO INSTITUTIONS

Countries around the world and states use a variety of approaches to fund instruction, operations, and capital investment of HE institutions, including:

- Negotiated or ad hoc budgets
- Categorical or earmarked funds
- Funding formulas

ELEMENTS OF FUNDING FORMULAS FOR RECURRENT EXPENSES

Most countries now use some type of formula to allocate funds to HE institutions for their recurrent expenses. The factors used in developing these formulas include:

- Inputs such as staff or numbers of students
- Costs per student
- Priority-based funding
- Performance-based funding

Countries also vary in what type of organization develops the formula:

- Political entities
- Buffer bodies

TRADITIONAL AND PERFORMANCE-BASED HE FUNDING MECHANISMS

Traditional Mechanisms	Performance-Based Mechanisms
Negotiated Budgets – Allocations of public funds are negotiated between government agencies and institutions	Performance contracts – Governments enter into agreements with institutions to link resource allocations to the achievement of mutually determined performance-based goals
Categorical Funds – Categories of institutions are designated as being eligible for funding for specific purposes including facilities, equipment, and programs	Performance set asides - A portion of public funding for tertiary education is set aside to pay institutions on the basis of their achieving various performance targets Competitive funds – Institutions or faculty compete for funding based on peer reviewed project proposals against a set of policy objectives
Funding Formulas – Funds typically are allocated to institutions on the basis of staff numbers, enrollment levels and unit costs	Paying for Results – Output or outcome measures used to determine all or part of funding formula allocations, or institutions are paid for the number of students graduating in certain fields of study or with specific skills

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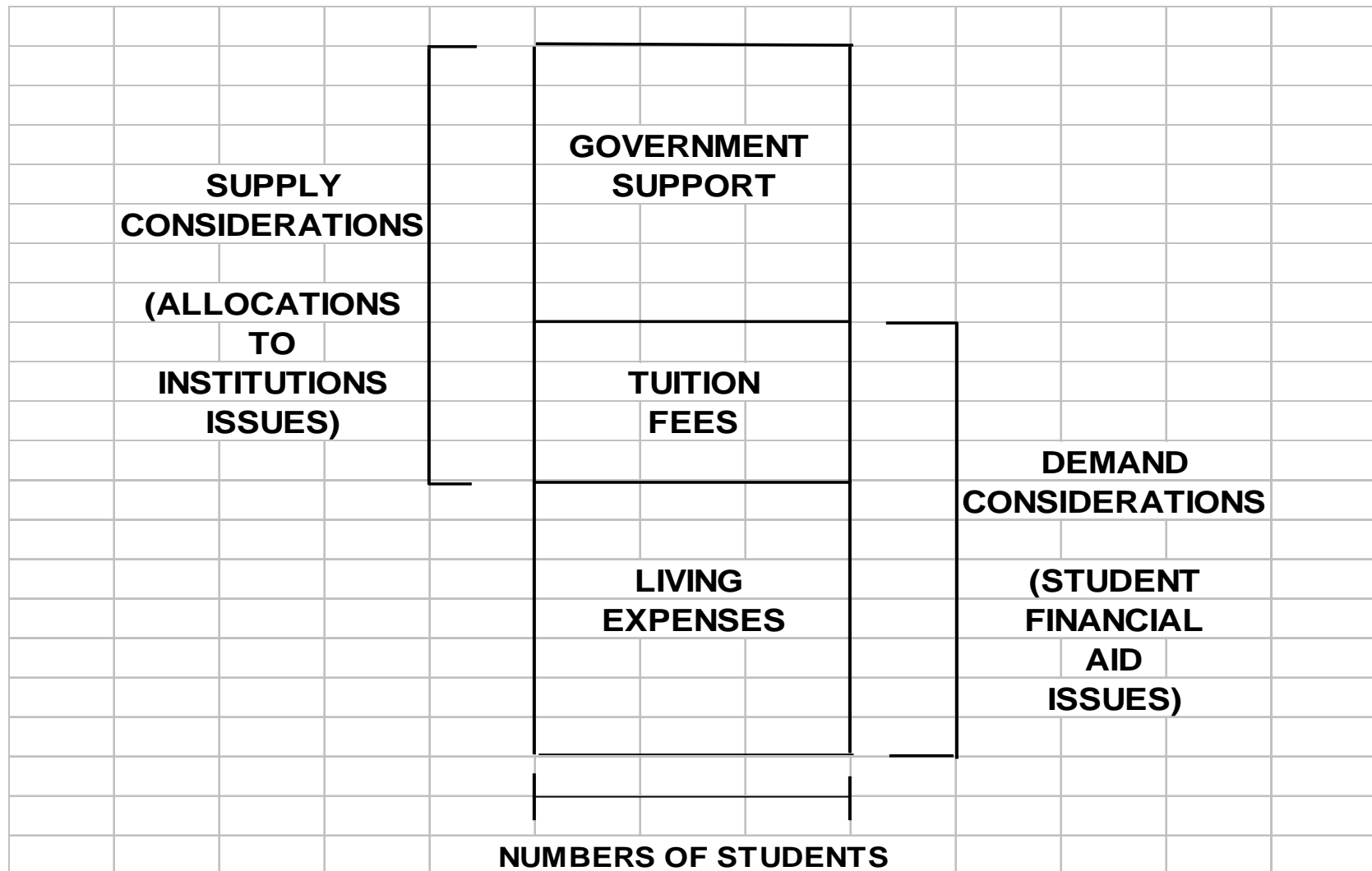
FUNDING FORMULA COMPONENTS

Components	Types of Indicators Utilized
Numbers	Students - Head Count, Full-Time, FTE Staff – Faculty, Administrative Staff, Total Progression – Graduates, Course Completers Timing – Retrospective, Current, Prospective
Costs	Actual by Institution or Program Average Across Institutions or Program Normative – Typically by Program
Priority Factors	National or Regional Priority Labor Force Needs Extra Costs of Different Programs Socioeconomic Characteristics of Students

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THE KEY ROLE OF TUITION FEES IN THE SUPPLY OF AND DEMAND FOR HIGHER EDUCATION



WHO SETS TUITION AND FEES: INSTITUTIONS OR GOVERNMENT?

If government sets fees, it should be on a consistent basis:

- As % of costs per student
- Based on what peer institutions charge
- Based on overall or individual ability to pay
- Do fees vary by institution? By field of study?

If institutions set fees, it should also be on a rational basis with government oversight

In either case, institutions should retain tuition fees that students are charged

POSSIBLE OBJECTIVES FOR STATE STUDENT FINANCIAL AID PROGRAMS

State student financial aid programs can seek to achieve a number of different objectives, including:

- Need-based – Help those students whose families lack the financial resources to pay for tuition and other charges
- Merit-based – Reward students who do well academically or who otherwise have demonstrated merit
- Choice – Aid provided to students who go to public and private institutions within the state
- Portable – Encourage choice by allowing students to use state aid to attend institutions in other states

WHAT MAKES FOR GOOD SYSTEM GOVERNANCE

Institutions should have autonomy in how they spend public funds with government safeguards against abuse

Accountability should be achieved by institutions receiving public funds the next year based on the results of how they spent this year's funds

Either governments or institutions should set fees in the context of what families can afford and the private value of the education

Regardless of who sets fees, institutions should retain fees to spend as they see fit

Good institutional governance requires that faculty be seen as part of the solution, not the source of the problem

PRINCIPLES TO GUIDE THE PUBLIC FINANCING OF HE INSTITUTIONS

Government officials should be responsible for how much public funds are allocated to HE

The process of allocating public funds to HEIs should be insulated as much as possible from political pressures

Policies for fees, funding and financial aid should be linked as much as possible

The basis for funding instruction and research need not be the same

Funding formulas should use normative costs as the basis for allocating funds rather than actual or average costs

Strong quality assurance processes should be in place to assure that public funds for HE are spent wisely

IMPORTANCE OF LINKING FUNDING, FEES, & FINANCIAL AID

- **As much as possible, states should try to link their policies for funding, fees, and financial aid**
- **This is one of the most important things that states can do to ensure that the policies they adopt for financing higher education are effective**
- **These policies should reinforce each other so that they each are directed at meeting state policy goals**
- **This is often not the case, as state funding is intended to improve quality while student aid policies are generally directed at improving equity**
- **Another example of poor coordination occurs when student aid does not grow commensurately when tuition is increased**

STATE GOVERNMENT HIGHER EDUCATION POLICY REFORMS

Tie public tuition levels to median income family's ability to pay

Ensure low income students are provided aid so they don't have to borrow to pay for tuition

Reallocate funds towards lower cost institutions

Modify state funding formulas to encourage greater efficiency and productivity at each public institution

- Funding formulas should be based on “normative” costs rather than actual or average costs
- Include number of graduates, not just students enrolled, in state funding formula
- Provide funding premium to schools based on number of low-income family students they enroll and graduate

Require public institutions to enroll a minimum number of in-state students to qualify for state support

Allow public institutions to retain all the tuition and fees they charge